



NEW APPL



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February 28, 2001

NEW APPLICATION

Ms. Deborah Scott
Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKET NO.

E-01345A-01-0175

RE: OPERATING AGREEMENT FOR VOLUNTARY INTERRUPTIONS ("AGREEMENT")
BETWEEN ARIZONA PUBLIC SERVICE COMPANY AND PHELPS DODGE BAGDAD, INC.

Dear Ms. Scott:

Arizona Public Service Company ("APS") and Phelps Dodge Bagdad, Inc. ("PD Bagdad") have negotiated in good faith, an agreement for the provisions for voluntary interruption of electric service to the PD Bagdad Mine. This Agreement promotes the economically efficient use of resources, offers APS increased flexibility to improve reliability and control costs, and extends the voluntary interruption provisions approved by the Commission in January, 2001.

This Agreement is hereby enclosed for filing. APS believes that portions of the information contained in this document is commercially sensitive and is concurrently submitting a confidentiality agreement with Staff. APS has filed the non-confidential portion of the Agreement with Docket Control.

The parties would appreciate your consideration of this Agreement at the March 27, 2001 Regular Open Meeting, so that it can become effective for service to PD Bagdad on April 1, 2001. Should Staff not be able to complete its review of this Agreement in time for the Regular Open Meeting of March 27, 2001, the parties respectfully request that this Agreement be considered for approval at the Commission's next regularly scheduled Open Meeting. The Company hereby waives the requirement that the Commission act on this request within (30) days.

If you or your staff have any questions regarding this filing, please feel free to contact me.

Sincerely,

Jana Van Ness
Arizona Public Service Company

Attachment

JVN/srm

Cc: Mike McElrath, PD Bagdad, Inc.
Patrick Williams,
Manager, Compliance & Enforcement
Docket Control, (Original and 10 copies)

AZ CORP COMMISSION
DOCUMENT CONTROL

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RECEIVED

OPERATING AGREEMENT FOR VOLUNTARY INTERRUPTIONS

**BETWEEN
ARIZONA PUBLIC SERVICE COMPANY
AND
PHELPS DODGE BAGDAD, INC.**

APS CONTRACT NO. 200100028

1. BACKGROUND:

This Operating Agreement (or "Agreement") is made by and between Arizona Public Service Company, an Arizona corporation ("APS"), and Phelps Dodge Bagdad, Inc., a Delaware corporation ("Customer" or "PDB") (collectively the "Parties"), and is applicable to Customer's load at its Bagdad Mine, located near the Town of Bagdad, in Yavapai County, Arizona.

Commencing on April 1, 2001, APS will sell and Customer will purchase electricity for the Bagdad Mine pursuant to the terms and conditions set forth in the Electric Supply Agreement for service on Rate E-35.

On December 14, 2000, the Parties executed a Letter Agreement specifying the terms and conditions by which Customer may interrupt power on a voluntary basis, if requested by APS, and receive payment for the interruption. This Letter Agreement amended the Conformed Electric Supply Agreement (the "Supply Agreement") between the Parties dated May 3, 1997, as amended on March 17, 1999 (Contract No. 9944), which Contract No. 9944 expires on April 1, 2001. The Arizona Corporation Commission ("ACC") on January 8, 2001 approved the Letter Agreement. Under the Letter Agreement, APS may request interruption for any reason, however, Customer is under no obligation to accept the interruption. The initial term of the Letter Agreement also expires on April 1, 2001. The Letter Agreement has offered financial and operating benefits to both Parties. This Agreement provides continuity of this interruptible service and specifies more flexible terms and conditions for interruptions that hereinafter are referred to as "APS-Requested Voluntary Interruptions."

Additionally, this Agreement establishes the terms and conditions for voluntary, prescheduled interruption of load at the discretion of the Customer and with the approval of the Company. These interruptions shall be referred to herein as "Customer-Prescheduled Interruptions." Over a month, or over any other time period during the term of this Agreement, PDB may request a single Customer-Prescheduled Interruption, or it may request a series of Customer-Prescheduled Interruptions. For example, PDB has the option to request three or four interruptions commencing on Monday and ending on Friday during weeks in August 2001. PDB may submit a single notification request for such a series of Customer-Prescheduled Interruptions. APS has the option to approve or reject any Customer request for any Customer-Prescheduled Interruption(s).

APS and the Customer recognize that the interruptible service options addressed herein will benefit both Parties by promoting the economically efficient use of resources and by offering APS increased flexibility to improve reliability and control costs. Moreover, the Parties recognize that PDB is unique among all APS' current retail customers in regards to its size, dedicated delivery on the transmission system and dynamic metering in APS' Energy Management System, which together facilitate APS' ability to offer this interruptible service.

2. CONTACTS:

ARIZONA PUBLIC SERVICE COMPANY

| | |
|---------------------------------------|--------------|
| APS-Requested Voluntary Interruptions | 602-250-3585 |
| Customer-Prescheduled Interruptions | 602-250-3634 |

PD BAGDAD

| | |
|-------------------|---------------------------------|
| Mill Control Room | 520-633-3300 or 520-633-3200 |
| Security Gate | 520 633-3211. |

3. TERMS AND CONDITIONS FOR INTERRUPTION:

- 3.1 This Agreement becomes effective upon its approval by the ACC or April 1, 2001, whichever is later. Either Party may cancel it within thirty days of the ACC's order in the event that the ACC changes the terms and conditions herein unless the Parties otherwise agree in good faith to amend their agreement to adopt the changes made by the ACC.
- 3.2 The term of this Agreement extends through December 31, 2002.
- 3.3 If Customer chooses to receive direct access service during the term of this Agreement, this Agreement shall be terminated effective as of the date Customer begins receiving direct access service.
- 3.4 **APS-Requested Voluntary Interruption**
 - A. Under an APS-Requested Voluntary Interruption, Customer may interrupt power at the Bagdad Mine on a voluntary basis and receive payment for the interruption.
 - B. APS may request interruption for any reason.
 - C. Customer is under no obligation to accept the interruption.
 - D. The terms of each interruption are:
 - i.

- ii. Four-hour minimum interruption time per each interruption call.
- iii. No maximum number of hours of interruption for each interruption.
- iv.

v. Telephone communication shall be followed by fax or e-mail confirmation.

3.5 **Customer-Prescheduled Interruption.** The Customer may request to preschedule an interruption of its load as specified below. APS in its sole discretion may either accept or reject the Customer's request for prescheduled interruption.

- A. Customer may preschedule each interruption by notifying APS by telephone, followed by fax or e-mail confirmation. This notification must be submitted between 8:00 A.M. and 5:00 P.M. on a Monday, Tuesday, or Wednesday, or between 8:00 A.M. and 12:00 P.M. Thursday. Notifications may not be submitted during any other hours Monday through Thursday, nor may they be submitted on Friday, Saturday, Sunday or holidays. Additionally, notifications must be submitted at least ninety (90) days prior to the requested date of the interruption. In the notification, Customer shall provide to APS the:
 - i. Customer's nomination of a "Maximum Baseload" in MW and a commitment not to exceed the Maximum Baseload during the Customer-Prescheduled Interruption period. Baseload refers to that load that will not be interrupted during the Customer-Prescheduled Interruption period. The Parties understand that the Baseload excludes the Bagdad townsite.
 - ii. Date and hour when each Customer-Prescheduled Interruption period begins.
 - iii. Duration of each interruption in whole numbers of days (hereinafter referred to as "Interruption Duration"), ranging from a minimum of five (5) consecutive days to a maximum of sixty (60) consecutive days.
- B. Customer-Prescheduled Interrupted Energy shall be defined as the number of hours in the Interruption Duration multiplied by the quantity obtained by subtracting the Maximum Baseload from 75 MW.
- C. The payment for Customer-Prescheduled Interrupted Energy shall be calculated as a price per MWH as quoted by APS to the Customer ("Quoted Price"), less the Customer-Prescheduled Interrupted Energy priced at the average E-35 price (base bill divided by billed energy) during the last billing period for which no prescheduled interruption occurred.
- D. APS will respond to the interruption request within twenty-four (24) hours, unless the day following the notification is a holiday. In that case, APS's response shall be by 5:00 P.M. on the next business day. The response will specify the quoted price for the interrupted load or indicate that APS rejects the request.

E.

- F. Actual, hourly, metered demands will be used to determine whether the Customer was in compliance with the Prescheduled Interruption. If the metered demand over any clock-hour during the Customer-Prescheduled Interruption Period exceeds the Maximum Baseload, then any excess over the Maximum Baseload shall be deemed Non-Compliance Load and shall be billed in accordance with paragraph G, below.
- G. In the event that Customer is in non-compliance as described in paragraph F above, Customer shall pay all costs incurred by APS to provide replacement energy associated with the Non-Compliance Load, plus _____, less the calculated payment made to APS by Customer on the standard rate specified in the Electric Supply Agreement for the replacement energy associated with the Non-Compliance Load.
- H. Any credits or payments for scheduled interruption and/or charges for non-compliance will appear on the Customer's regular monthly bill.

3.6 This Agreement is separate from the Electric Supply Agreement, and is not an amendment thereto. However, to the extent that there is any conflict between this Operating Agreement and the Electric Supply Agreement, this Operating Agreement supercedes the Electric Supply Agreement.

ARIZONA PUBLIC SERVICE COMPANY

BY *Alan Propper*
Alan Propper

DATE 2/27/01

PHELPS DODGE BAGDAD, INC.

BY *WS Brack*
WS Brack

DATE 2/27/01